

DOCUMENT RESUME

06244 - [B1606649]

[Audit of the Federal Deposit Insurance Corporation for the Year Ended December 31, 1977]. FOD-78-3; B-114831. June 8, 1978. 2 pp. + 5 enclosures (11 pp.).

Report to George L. LeMaistre, Chairman, Board of Directors, Federal Deposit Insurance Corp.; by Robert F. Keller, Acting Comptroller General.

Issue Area: Accounting and Financial Reporting: Operations, Financial Position, and Changes (2802).

Contact: Field Operations Div.

Budget Function: Miscellaneous: Automatic Data Processing (100).

Congressional Relevance: House Committee on Banking, Currency and Housing; Senate Committee on Banking, Housing and Urban Affairs.

Authority: Federal Deposit Insurance Act (12 U.S.C. 1827).

The financial statements of the Federal Deposit Insurance Corporation were audited for the year ended December 31, 1977, including an examination of statements of income and the deposit insurance fund, changes in financial position, and an analysis of the deposit insurance fund. The examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other auditing procedures as were considered necessary.

Findings/Conclusions: The financial statements present fairly the financial position of the Corporation at December 31, 1977 and 1976, and results of operations and changes in financial position for the years then ended in conformity with the principles and standards of accounting prescribed by the Comptroller General. The deposit insurance fund of \$8 billion at December 31, 1977, represents net income accumulated since the fund's beginning in 1933 and is available to meet future losses. The fund is financially sound and adequate to meet potential losses that might result from problem conditions existing in specific insured banks at the end of 1977. (RBS)

6649



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20540

B-114831

June 8, 1978

The Honorable George A. LeMaistre
Chairman, Board of Directors
Federal Deposit Insurance
Corporation

Dear Mr. LeMaistre

We have completed an audit of the accompanying financial statements of the Federal Deposit Insurance Corporation for the year ended December 31, 1977. We made our examination pursuant to section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827).

During our audit we examined the statement of financial condition as of December 31, 1977, and the related statements of income and the deposit insurance fund, changes in financial position, and an analysis of the deposit insurance fund. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary. To the extent possible we reduced the audit scope based on the work of the internal auditors.

In our opinion, the accompanying financial statements (sch. 1 through 4) present fairly the financial position of the Corporation at December 31, 1977 and 1976, and the results of its operations and the changes in its financial position for the years then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States.

FOD-78-3
(97617)

The deposit insurance fund of \$8 billion at December 31, 1977, represents net income accumulated since the fund's beginning in 1933 and is available to meet future losses. We believe the fund is financially sound and adequate to meet potential losses that might result from problem conditions known to exist in specific insured banks at the end of 1977. Whether it would be adequate during future periods depends on economic conditions and, therefore, is currently undeterminable.

We are sending copies of this letter report to the Director, Office of Management and Budget, and to the Secretary of the Treasury.

Sincerely yours,


ACTING Comptroller General
of the United States

Enclosures - 5

FEDERAL DEPOSIT INSURANCE CORPORATION
COMPARATIVE STATEMENT OF FINANCIAL CONDITION

ASSETS	Calendar year ended December 31			
	1977			1976
	------(000 omitted)-----			
CASH	\$	8,663		\$ 22,850
U.S. GOVERNMENT OBLIGATIONS:				
Securities at amortized cost	\$7,129,055		\$6,630,116	
Accrued interest (notes 2 and 3)	<u>137,957</u>	7,267,012	<u>130,113</u>	6,760,229
ASSETS ACQUIRED FROM PAYOFF CASES AND INSURED BANKS ASSISTED UNDER SECTION 13(e) (CLOSED BANKS) OF THE FDI ACT (note 4):				
Depositors claims paid	49,764		62,598	
Depositors claims unpaid	900		1,280	
Loans and assets purchased	1,171,083		1,664,321	
Assets purchased outright	19,122		4,326	
Notes purchased plus accrued interest	132,155		204,627	
Less reserves for losses	<u>244,741</u>	1,128,283	<u>223,401</u>	1,713,751
ASSETS ACQUIRED FROM INSURED BANKS ASSISTED UNDER SECTION 13(c) (OPEN BANKS) OF THE FDI ACT:				
Assets purchased outright	27,765		30,834	
Notes purchased plus accrued interest (note 5)	37,423		37,007	
Less reserves for losses	<u>15,400</u>	49,798	<u>17,200</u>	50,641
MISCELLANEOUS ASSETS		2,370		1,869
LAND AND OFFICE BUILDING LESS DEPRECIATION OF BUILDING (note 2)		<u>6,413</u>		<u>6,553</u>
TOTAL ASSETS (note 1)		<u><u>\$8,462,534</u></u>		<u><u>\$8,555,903</u></u>

The notes following schedules 4 are an integral part of these statements.

SCHEDULE 1

SCHEDULE 1

<u>LIABILITIES AND THE DEPOSIT INSURANCE FUND</u>	<u>Calendar year ended December 31</u>	
	<u>1977</u>	<u>1976</u>
	----- (000 omitted) -----	
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 5,947	\$ 3,927
EARNEST MONEY, ESCROW FUNDS AND COLLECTIONS HELD FOR OTHERS	12,086	3,963
ACCRUED ANNUAL LEAVE OF EMPLOYEES	4,316	3,791
DUE INSURED BANKS:		
Net assessment income credits:		
Available July 1, 1977	\$ 0	\$379,595
Available July 1, 1978	411,947	0
Other	<u>16,789</u>	<u>27,185</u>
	428,736	406,780
LIABILITIES INCURRED IN RECEIVER- SHIP AND DEPOSIT ASSUMPTION TRANSACTIONS (note 6):		
Federal Reserve Bank of New York indebtedness	0	848,346
Other notes payable	17,761	18,691
Depositors claims unpaid	900	1,280
Total liabilities	469,746	1,287,278
DEPOSIT INSURANCE FUND, NET INCOME SINCE INCEPTION (sch. 2)	<u>7,992,780</u>	<u>7,268,625</u>
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND (notes 1, 2, and 7)	<u>\$8,462,534</u>	<u>\$8,555,903</u>

FEDERAL DEPOSIT INSURANCE CORPORATION
COMPARATIVE STATEMENT OF INCOME AND
THE DEPOSIT INSURANCE FUND

	Calendar year ended	
	December 31	
	1977	1976
	----- (000 omitted) -----	
REVENUES:		
Assessments earned (note 2)	\$ 731,468	\$ 676,065
Interest on U.S. Government Securities	493,990	444,699
Amortization of premiums and discounts (net) (note 1)	9,171	4,995
Interest earned on notes receivable	14,841	17,697
Other income	442	1,001
TOTAL REVENUES	1,249,912	1,144,457
EXPENSES, LOSSES, AND ASSESSMENT CREDITS:		
Net loss on sale of U.S. Government securities	0	105,595
Provision for assessment credits	412,086	379,565
Administrative and operating expenses	89,344	74,849
Provision for insurance losses	20,827	28,001
Nonrecoverable insurance expenses	3,492	3,861
TOTAL EXPENSES	525,749	591,871
NET INCOME--Addition to the deposit insurance fund	724,163	552,586
DEPOSIT INSURANCE FUND--January 1	7,268,625	6,716,039
DEPOSIT INSURANCE FUND--December 31	\$7,992,788	\$7,268,625

The notes following schedule 4 are an integral part of these statements.

FEDERAL DEPOSIT INSURANCE CORPORATION
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

	Calendar year ended	
	December 31	
	1977	1976
	----- (000 omitted) -----	
RESOURCES WERE PROVIDED FROM:		
Operations:		
Net deposit insurance assessments	\$ 319,382	\$ 296,500
Interest on U.S. Government obligations	493,990	444,699
Interest on notes receivable	14,841	17,697
Other income	442	1,001
Total	\$ 828,655	\$ 759,897
Less:		
Administrative and operating expenses, net of depreciation	89,209	74,714
Nonrecoverable insurance expense	1,492	3,861
Total	\$ 92,701	\$ 78,575
Total	735,954	681,322
Maturity and sale of U.S. Government obligations, less \$105,595 net loss in 1976	3,264,625	2,606,985
Collections received on assets acquired in receivership and deposit assumption transactions, excluding \$261,000 in 1977 and \$475,000 in 1976 in Franklin National Bank liquidation collections applied directly to the reduction of the Federal Reserve Bank indebtedness before its payoff	419,095	362,579
Increase in assessment credits due banks	21,956	43,254
Net change in other assets and liabilities	10,167	1,908
Decrease (increase) in cash	14,197	(5,501)
Total resources provided (note 2)	\$4,465,994	\$3,690,547
RESOURCES WERE APPLIED TO:		
Purchase of U.S. Government obligations	\$3,754,394	\$2,971,611
Payment of Federal Reserve Bank Indebtedness (note 6):		
Principal	389,000	0
Accrued interest	218,876	0
Acquisition of assets acquired in receivership and deposit assumption transactions, excluding \$19,000 in 1977 and \$82,690 in 1976 representing the increase in principal and accrued interest on the F.R.B. indebtedness and other notes payable before F.R.B. payoff	95,880	695,027
Increase in accrued interest on securities	7,844	23,909
Total resources applied (note 2)	\$4,465,994	\$3,690,547

The notes following schedule 4 are an integral part of these statements.

FEDERAL DEPOSIT INSURANCE CORPORATION
COMPARATIVE ANALYSIS OF DEPOSIT INSURANCE FUND

	From inception to December 31	
	1977	1976
	----- (000 omitted) -----	
INCOME:		
Insurance assessment	\$9,503,244	\$8,771,776
Less net assessment income credits	<u>4,847,899</u>	<u>4,435,813</u>
Net insurance assessments	<u>4,655,345</u>	<u>4,335,963</u>
Income from U.S. Government securities	4,478,634	3,975,473
Other operating income (principally interest and allowable return from deposit insurance assumption and receivership cases)	<u>74,518</u>	<u>59,235</u>
Total income	<u>\$9,208,497</u>	<u>\$8,370,671</u>
EXPENSES AND LOSSES:		
Administrative and operating expenses	824,815	735,471
Deposit insurance losses and expenses	310,332	286,013
Interest paid to the Secretary of the Treasury on retired capital stock	<u>80,562</u>	<u>80,562</u>
Total expenses and losses	<u>\$1,215,709</u>	<u>\$1,102,046</u>
DEPOSIT INSURANCE FUND, NET INCOME ACCUMULATED SINCE INCEPTION	<u>\$7,992,788</u>	<u>\$7,268,625</u>

The notes following schedule 4 are an integral part of these statements.

FEDERAL DEPOSIT INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 1977 and 1976

1. These financial statements:

- (a) Do not include accountability for assets and liabilities of closed insured banks for which the Corporation acts as receiver or liquidating agent. Periodic and final accountability reports of its activities as receiver or liquidating agent are furnished by the Corporation to courts, supervisory authorities, and others as required.
- (b) Do include transactions in unaudited collection and distribution reports from liquidators of Franklin National Bank, Farmers Bank of the State of Delaware, and First State Bank for the month of December, 1977. Also included were transactions reflected in unaudited collection and disbursement reports from liquidators of Franklin National Bank, Northeast Bank of Houston, the Hamilton Bank and Trust Company, and Centennial Bank for the month of December, 1977.

2. SUMMARY OF ACCOUNTING POLICIES

- (a) U.S. Government obligations. Securities are shown at amortized cost which is the purchase price of the securities less the amortized premium or plus the accrued discount. Such amortization and accrual are computed on a daily straight-line basis from the date of acquisition to the date of maturity.
- (b) Deposit insurance assessments. The Corporation assesses insured banks at the rate of 1/12 of one percent per year on the bank's average deposit liability less certain exclusions and deductions. Assessments are due in advance for each 6-month period and credited to income when earned each month. Each July 1, two-thirds of the Corporation's net assessment income from the prior calendar year is made available to insured banks as a prorated credit against the current assessment due.
- (c) Reserve for losses. It is the policy of the Corporation to establish an estimated reserve for loss at the time a bank fails. These reserves are

reviewed every 6 months and adjusted as required, based on the financial developments which accrue during each 6-month period. The Corporation does not state its estimated contingent liability for unknown future bank closings because such estimates are impossible to make. The Corporation's contingent liability for eventual net losses depends upon factors which cannot be assessed until or after a bank has actually failed. The Corporation's entire deposit insurance fund and borrowing authority are available, however, for such contingencies.

- (d) Depreciation. The office building is depreciated on a straight-line basis over a 50-year estimated life. The cost of furniture, fixtures, and equipment is expensed at time of acquisition.
- (e) Reclassification. Certain reclassifications have been made in the 1976 financial statements to conform to the presentation used in 1977.

3. U.S. GOVERNMENT OBLIGATIONS

Investment in securities at December 31, 1977 and 1976, is as follows:

(in thousands)

	<u>1977</u>	<u>1976</u>
Face value	\$7,119,458	\$6,622,083
Purchase price	7,132,322	6,629,974
Market value	7,073,876	6,867,815

Market value of 1976 securities was restated to conform to the basis used in 1977.

4. ASSETS ACQUIRED FROM PAYOFF CASES AND INSURED BANKS ASSISTED UNDER SECTION 13(e) OF THE FDI ACT

- (a) Equity in assets acquired under agreements with insured banks totaled \$1,171 million and \$1,664 million at December 31, 1977 and 1976, respectively. Of these totals, approximately \$537 million for 1977 and \$849 million for 1976 represent assets acquired as a result of the closing of Franklin National Bank on October 8, 1974.

(b) Reserve for losses. As of December 31, 1977 and 1976, the Corporation's reserve for losses on payoff cases and on banks assisted under Section 13(e) of the FDI Act are as follows:

	<u>1977</u>	<u>1976</u>
Depositors' claims paid	\$ 16,032,000	\$ 21,073,000
Loans and assets purchased	210,709,400	198,328,300
Assets purchased out-right	<u>18,000,000</u>	<u>4,000,000</u>
Total	<u>\$244,741,400</u>	<u>\$223,401,300</u>

(c) Notes purchased to facilitate deposit assumptions. The Corporation's outstanding principal on notes receivable, purchased to facilitate deposit assumptions and mergers of closed insured banks under Section 13(e) of the Federal Deposit Insurance Act, at December 31, 1977 and 1976, are:

	<u>1977</u>	<u>1976</u>
Crocker National Corporation	\$ -	\$ 50,000,000
European-American Bank and Trust Company	-	100,000,000
Clearing Bank	1,500,000	1,500,000
Marine National Exchange Bank of Milwaukee	1,500,000	2,500,000
First Tennessee National Corporation	16,000,000	16,000,000
First Tennessee National Bank	8,000,000	8,000,000
Bank Leumi Trust Company of New York	10,000,000	10,000,000
New Orleans Bancshares, Inc.	7,500,000	7,500,000
Southeast Banking Corporation	-	5,000,000
European-American Bancorporation	<u>85,000,000</u>	<u>-</u>
Total	<u>\$129,500,000</u>	<u>\$200,500,000</u>
Accrued interest on notes receivable	<u>2,655,452</u>	<u>4,126,703</u>
Total	<u><u>\$132,155,452</u></u>	<u><u>\$204,626,703</u></u>

5. ASSETS ACQUIRED FROM INSURED BANKS ASSISTED UNDER SECTION 13(c) OF THE FDI ACT

The Corporation's outstanding principal on notes receivable, purchased under authority of Section 13(c) of the Federal Deposit Insurance Act, at December 31, 1977 and 1976, are:

	<u>1977</u>	<u>1976</u>
Unity Bank and Trust Company	\$ 1,500,000	\$ 1,500,000
Bank of the Commonwealth	<u>35,500,000</u>	<u>35,000,000</u>
Total	<u>\$37,000,000</u>	<u>\$37,000,000</u>
Accrued interest receivable	<u>423,000</u>	<u>7,409</u>
Total	<u>\$37,423,000</u>	<u>\$37,007,409</u>

6. LIABILITIES INCURRED IN FAILURES OF INSURED BANKS

- (a) Federal Reserve Bank of New York indebtedness. On October 7, 1977, the Corporation paid the Federal Reserve Bank of New York the outstanding principal balance of \$389 million due on the Federal Reserve Bank of New York indebtedness plus \$219 million of interest that was accrued for 1,095 days at the rate of 7.52 percent simple interest per annum on the unpaid principal balance and after deducting \$15 million for certain out-of-pocket expenses incurred by the Corporation as provided in the agreement of sale.
- (b) Other notes payable. These amounts represent the unpaid principal and accrued interest on the Corporation's unsecured notes designated "5.775% Series B Notes due January 1, 1990" as set forth in the consents, exchange agreement, and agreements of release and satisfaction related to the sale of Franklin Buildings, Inc. to European-American Bank and Trust Company.

7. CONTINGENT LIABILITIES

Southern Bancorporation note receivable. On December 9, 1976, Southern Bancorporation repaid in full the \$8 million note that the Corporation had purchased on September 24, 1974. Southern Bancorporation financed this transaction by obtaining a loan from First Union National Bank of North Carolina. To induce First Union to enter the loan agreement, the FDIC agreed to guarantee the

payment of 75 percent of the unpaid principal amount of the loan on the terms and conditions set forth in the guarantee agreement. As of December 31, 1977 and 1976, First Union's outstanding principal due on the loan totaled \$7.4 million and \$8.0 million, respectively.